

A wide-angle photograph of a crowded beach at sunset. Numerous surfers are wading in the shallow ocean waves, many carrying their surfboards. The sky is filled with large, golden clouds, and the water reflects the warm light of the setting sun. The overall scene is vibrant and captures a popular recreational activity.

# Popular Annual Financial Report

October 1, 2011 – September 30, 2013

## Huntington Beach, California

Published April 2014



# About Huntington Beach

## City Profile



### ELECTED OFFICIALS

*From left to right:*

**Mayor Pro Tem Joe Shaw**

**City Treasurer Alisa Cutchen**

**Councilmember Jill Hardy**

**City Attorney Jennifer McGrath**

**Mayor Matthew Harper**

**Councilmember Joe Carchio**

**City Clerk Joan Flynn**

**Councilmember Dave Sullivan**

**Councilmember Jim Katapodis**

**Councilmember Connie Boardman**

The City of Huntington Beach, with a population of 193,616, is located on the Orange County coast, 35 miles south of Los Angeles and 90 miles north of San Diego. The City is internationally known as “Surf City” due to its abundance of beaches, history of surf culture, and sunny and warm Mediterranean climate - all of which lends to its famous casual lifestyle. Featuring over ten miles of coastline, Huntington Beach plays host to over 16 million visitors annually. Listed among the nation’s safest cities for decades, Huntington Beach has often been ranked among the “Top Ten Safest Cities by City Crime Rankings” by the Federal Bureau of Investigation. The City boasts an annual median household income of \$77,642, and about half of its residents, or 49 percent, have college degrees, rendering it the “Second Best City to Live In” within Orange County according to the *Orange County Register*.

Founded in the late 1880’s, Huntington Beach was incorporated as a Charter City in 1909. Huntington Beach has a Council/Manager form of government wherein seven City Council members are elected to four-year terms, and the Mayor is filled on a rotating basis from the incumbent Council members. The City Attorney, City Clerk and City Treasurer positions are also elected and serve four-year terms.





# Popular Annual Financial Report

This report provides an overview of the City's financial position, including sources of revenues and expenditures, as well as economic information about the community. The Popular Annual Financial Report (PAFR) of the City of Huntington Beach is published to increase public awareness about the City's financial condition. It is our goal that this report is easy to read and understandable.

The PAFR summarizes the financial activities of the City of Huntington Beach's governmental and proprietary funds and draws its information from the 2013 Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants. The City received an unmodified (or clean) opinion that the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City. The amounts within the CAFR were arrived at by employing accrual and modified accrual basis accounting techniques as prescribed by the Governmental Accounting Standards Board. Government-wide data on

pages 9-11 is presented similar to a consolidated financial statement for a private business (accrual basis). Governmental funds financial information on pages 12-13 is presented under standard governmental accounting rules (modified accrual basis). Modified accrual accounting is a Governmental accounting method based on revenues being recognized in the period when they become available and measurable (known).

This PAFR is unaudited and is presented on a non-GAAP basis. The differences between the GAAP basis presentation in the CAFR and the non-GAAP presentation in the PAFR are as follows: the use of prescribed accounting methods and financial statement formats; the presentation of segregated funds; and the disclosure of all material financial and non-financial matters in notes to the financial statements. Individuals who desire to review the audited GAAP-based, full disclosure financial statements should refer to the City's CAFR, which is available on the City's website: [www.huntingtonbeachca.gov](http://www.huntingtonbeachca.gov), or by contacting the Finance Department at 2000 Main Street, Huntington Beach, California, 92648, phone (714) 536-5630, or e-mail [mloadsman@surfcity-hb.org](mailto:mloadsman@surfcity-hb.org).





## LOCAL ECONOMY



The City of Huntington Beach is one of the leading commercial and industrial centers in Southern California. As the fourth largest city in Orange County, and the 16<sup>th</sup> largest in California, more than 115,100 people are currently employed by over 5,400 businesses and governmental entities in the City. With an unemployment rate of 4.3 percent, well below the national and state levels, the City's employment base is well positioned to maintain a stable local economy and tax base.

The Huntington Beach business community is extremely diversified with no single industry or business dominating the local economy. Local businesses include aerospace and high technology, petroleum, manufacturing, computer hardware and software, financial and business services, hotel and tourism, automobile services, large-scale retailers and surf apparel, just to name a few. The diversification of the City's sales tax base is enviable, with no particular area of industry over-concentration thereby mitigating the impact of industry-specific downturns.

## "HB Rising"

While the State has virtually eliminated its commitment to economic development, the City remains unflinching and steadfast in its goal to stimulate business development in Huntington Beach. A new Office of Business Development has been created in the City Manager's Office to signal the City's renewed commitment to economic development.

A new "HB Rising" initiative will continue to promote economic development initiatives throughout the City reassuring the community that Huntington Beach remains committed to revitalizing its neighborhoods and enhancing its economic development plans. To that end, significant progress is being made in securing entitlements, issuing permits or finalizing plans for a number of projects in FY 2013/14, including:

- **Pacific City** - an upscale retail village consisting of 191,000 square feet of unique and boutique retail and restaurant space overlooking the Pacific Ocean. The facility will include the Pacific City Hotel and 516 luxury residential units with concierge services. Construction has commenced on the parking structure with the retail stores opening in 2015.
- In addition to the opening of Costco and 467 luxury apartments in May 2013, **Bella Terra Phase II** will feature 47,000 square feet of retail space adjacent to an open-space courtyard setting.
- The acclaimed **Waterfront Hilton Hotel Resort** is currently finalizing its financing for a second hotel tower along with numerous other permitted commercial and industrial projects
- A \$1.5 million appropriation to support start-up costs for a new state-of-the-art **Senior Center**.



## Long-Term Financial Sustainability

To help meet the Strategic Plan goal to “Improve Long-Term Financial Sustainability,” the City developed an innovative, multi-pronged approach to significantly reduce the City’s retirement and Other Post Employment Benefit (OPEB) unfunded liabilities over the next 10 years. These plans are included in the FY 2013/14 Adopted Budget and have launched a multi-year effort to pay down the City’s pension and retiree medical liabilities while simultaneously saving taxpayers over \$16.6 million over the next 15 to 25 years.

The value of the City’s unfunded liabilities currently totals \$252.6 million. The City’s CalPERS, Retiree Medical and Retiree Supplemental Plans are 79.1 percent, 47.7 percent and 42.9 percent funded, respectively. To address this challenge, the City developed a unique plan for the pre-payment of the City’s unfunded liabilities several years ahead of schedule. By 2024, the City will have paid off \$47.3

million, completely eliminating the unfunded liabilities for two out of three of the City’s retiree benefit plans in ten years.

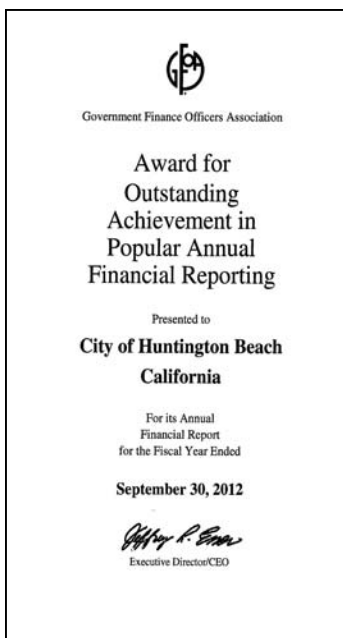
The City’s unique three-pronged approach addresses the unfunded liabilities for the City’s: 1) California Public Employees’ Retirement (CalPERS) Pension Plan; 2) Retiree Medical Plan; and, 3) Supplemental Pension Plan. The “One Equals Five Plan,” the “25 to 10 Plan,” and the “16 to 10 Plan,” respectively, will reduce the unfunded liabilities for each of the City’s retiree benefit plans over the next several years. At the center of each plan is the expedited pre-payment of unfunded liabilities through significant reductions in each plan’s amortization period. This strategy results in the complete elimination of the unfunded liabilities for the City’s OPEB and Supplemental Pension Plans in 10 years; and, a significant decline in the CalPERS unfunded liability as well.

## AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the City of Huntington Beach for its Popular Annual Financial Report for the fiscal year ended September 30, 2012. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year

only. The City of Huntington Beach has received a Popular Award for the last seven consecutive years (fiscal years ended 2006-2012). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.



We are also pleased to report that the City of Huntington Beach received the prestigious “Innovation Award” from the California Society of Municipal Finance Officers (CSMFO) on February 21, 2014, for its innovative approaches to reducing the unfunded liabilities for its pension and Other Post Employment Benefit (OPEB) plans. A total of 11 cities applied for this new award and only two, including Huntington Beach, were selected as recipients. This honor demonstrates the City’s financial acumen and creative approaches towards addressing complicated challenges.





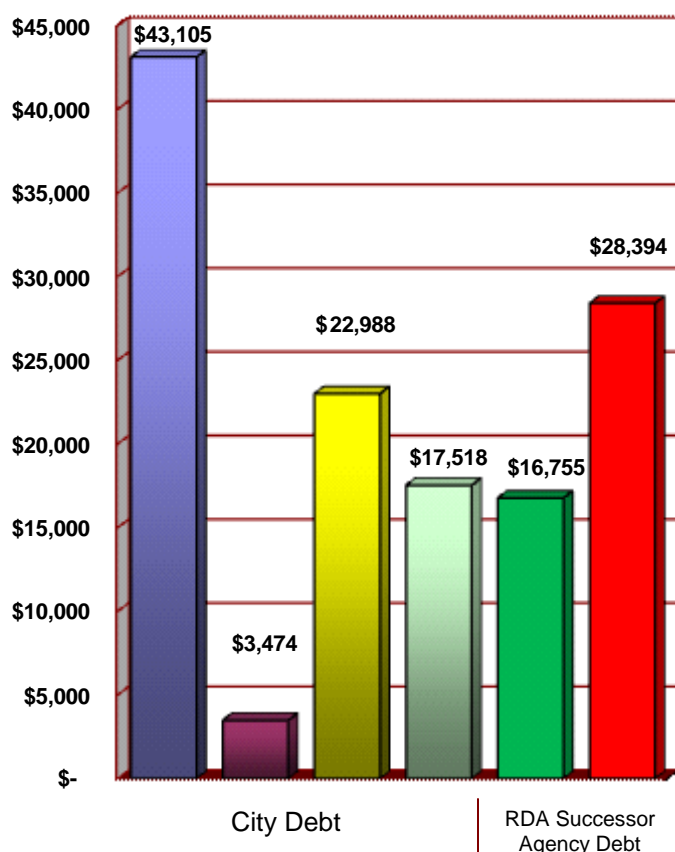
# Key Financial Information

## CITY DEBT

The City of Huntington Beach is legally restricted to issuing general obligation bonds to 12 percent of its assessed valuation. The City has no general obligation bonds outstanding. The City continues to maintain strong credit ratings on all of its debt issues. The chart on the right shows the latest ratings as determined by Moody's Investor Service and Standard and Poor's.

Debt Instrument	Moody's	S & P
2004 Judgment Obligation Bonds	Aa3	AA
2010 Lease Revenue Bonds, Series A	Aa3	AA
2011 Lease Revenue Bonds, Series A	Aa3	AA
1999 Tax Allocation Refunding Bonds	Baa2	A
2002 Tax Allocation Refunding Bonds	Baa2	A

## Total City Debt As of September 30, 2013 (In Thousands)



**Revenue Bonds** – Long-term bond issues used to finance civic improvements. The bonds are repaid from revenues generated from the lease on the buildings that were improved.

**Judgment Obligation Bonds** – Debt used to pay claims on court judgments.

**Claims** – Workers' Compensation and Liability Insurance claims made to the City.

**Other City Debt** – Miscellaneous long-term debts that include loans, compensated absences, leases, pollution remediation liabilities, and unfunded pension obligations.

**Tax Allocation Bonds** – Debt used for redevelopment agency project improvements. This debt is repaid by property tax revenues.

**Other Redevelopment Successor Agency Debt** – Primarily loans taken by the former Redevelopment Agency.



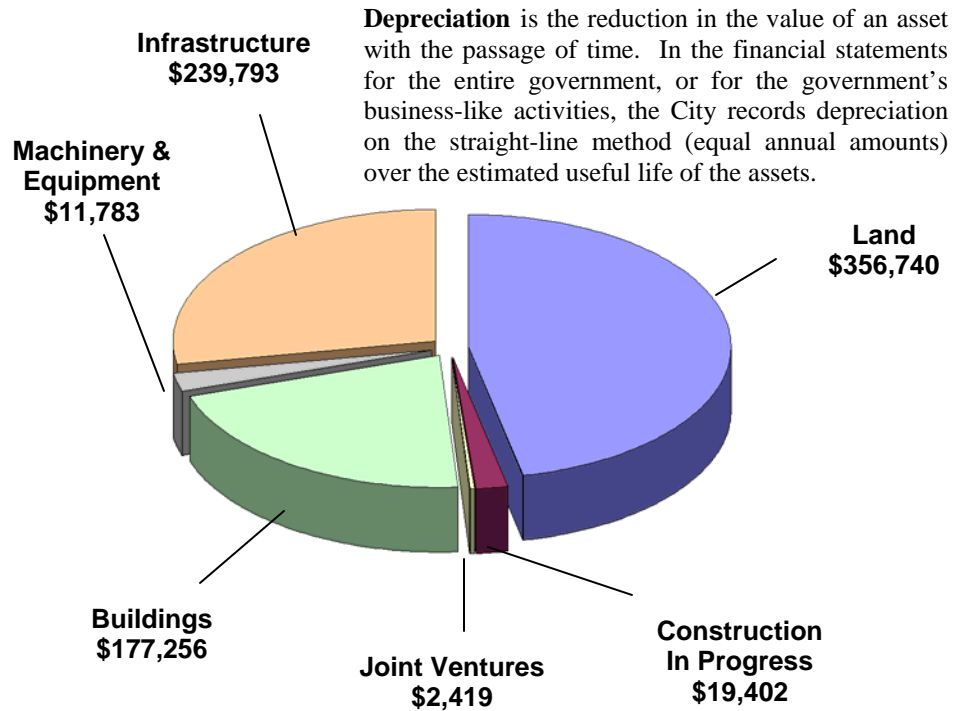
## City of Huntington Beach Capital Assets As of September 30, 2013 (In Thousands, Net of Depreciation)

### CAPITAL ASSETS

(Property, Plant, and Equipment)

As of September 30, 2013, the City's total capital assets balance is \$807,393,000. This total amount is broken down in the following categories:

- Land
- Construction in Progress
- Joint Ventures
- Buildings
- Machinery & Equipment
- Infrastructure





# Key Financial Information (continued)

## INVESTMENT PORTFOLIO

The market value of the City's cash and investments as of September 30, 2013 is as follows (in thousands):

INVESTMENTS:	Investment Maturities (In Years)					
	Fair Value	Less than 1	1 to 3	3 to 5	More than 5	Total
U.S. Agencies	\$ 136,340	\$ -	\$ 55,254	\$ 80,102	\$ 984	\$ 136,340
Mutual Funds*	37,765	37,765	-	-	-	37,765
Money Market Funds	2,620	2,620	-	-	-	2,620
Medium Term Notes	26,148	2,009	21,249	2,890	-	26,148
Local Agency Investment Fund	31,337	31,337	-	-	-	31,337
<b>Total Investments</b>	<b>\$ 234,210</b>	<b>\$ 73,731</b>	<b>\$ 76,503</b>	<b>\$ 82,992</b>	<b>\$ 984</b>	<b>234,210</b>
<b>Total Deposits</b>						<b>19,439</b>
<b>Total Deposits and Investments</b>						<b>\$ 253,649</b>

\* Supplemental Retirement Trust Fund Defined Benefit Plan.

The City's cash and investment practices and policies as of September 30, 2013, are based upon state law and prudent investor rules. Totals also include investments for the Supplemental Pension Retirement Trust Fund. The primary goals of these investment practices and policies are:

- To ensure compliance with all Federal, State, and local laws governing the investment of public funds under the control of the City Treasurer;
- To protect principal and maintain liquidity to meet expected operating expenses; and
- Achieve a reasonable rate of return within the parameters of prudent risk management while minimizing the potential for capital losses arising from market changes or issuer default.





# City Financials

## STATEMENT OF NET POSITION

The following financial summary is based upon a condensed view of the City's assets and liabilities for all funds as of September 30, 2013 and 2012.

### City of Huntington Beach Statement of Net Position As of September 30, 2013 and 2012 (In Thousands)

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2013	2012	Variance	2013	2012	Variance	2013	2012	Variance
<b>Assets</b>									
Current and other assets	\$ 170,030	\$ 154,811	10%	\$ 100,130	\$ 98,992	1%	\$ 270,160	\$ 253,803	6%
Capital assets	661,507	661,360	0%	145,886	141,931	3%	807,393	803,291	1%
<b>Total assets</b>	<b>831,537</b>	<b>816,171</b>	<b>2%</b>	<b>246,016</b>	<b>240,923</b>	<b>2%</b>	<b>1,077,553</b>	<b>1,057,094</b>	<b>2%</b>
<b>Liabilities</b>									
Current and other liabilities	21,242	13,167	61%	5,935	6,447	-8%	27,177	19,614	39%
Long-term obligations	87,085	92,621	-6%	1,112	1,055	5%	88,197	93,676	-6%
<b>Total liabilities</b>	<b>108,327</b>	<b>105,788</b>	<b>2%</b>	<b>7,047</b>	<b>7,502</b>	<b>-6%</b>	<b>115,374</b>	<b>113,290</b>	<b>2%</b>
<b>Net Position</b>									
Net investment in									
Capital Assets	617,267	613,065	1%	145,886	141,931	3%	763,153	754,996	1%
Restricted	51,867	44,220	17%	27,488	27,804	-1%	79,355	72,024	10%
Unrestricted	54,076	53,098	2%	65,595	63,686	3%	119,671	116,784	2%
<b>Total net position</b>	<b>\$ 723,210</b>	<b>\$ 710,383</b>	<b>2%</b>	<b>\$ 238,969</b>	<b>\$ 233,421</b>	<b>2%</b>	<b>\$ 962,179</b>	<b>\$ 943,804</b>	<b>2%</b>

Total net position increased by two percent when compared to the previous year. The increase in total net position is due in large part to additions made to capital assets for infrastructure improvements and improved tax and program revenues. Total current liabilities increased by thirty-nine percent due to normal fluctuations in accrued payroll costs and accounts payable. Total long-term liabilities decreased by six percent due to the expedited payoff of certain retiree benefit liabilities and bonded debt obligations. Total restricted net position increased by ten percent due to additional funds reserved for public works, community services, and utility projects and systems.

**Current and Other Assets** – Assets that one can reasonably expect to convert to cash, sell, or consume within one year.

**Capital Assets** – The City's long-term investments in land, buildings, equipment, improvements, infrastructure, and construction in progress. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**Current and Other Liabilities** – These are primarily debts that can be paid off in one year or less. This includes accounts payable, accrued payroll, accrued interest payable, and deferred revenue.

**Long-Term Obligations** – Represents mainly debt obligations of the City. The proceeds from these various debt issues are used to finance large projects such as building construction and renovations, major equipment purchases, and roadway construction.

**Net Investment in Capital Assets** – This represents the City's investment in its capital assets less accumulated depreciation and any outstanding debt attributable to the acquisition, construction, or improvement of these assets. It should be noted that the resources needed to repay this debt must be provided by other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Net Position** - This represents the difference between the City's total assets and liabilities.

**Restricted Net Position** – Resources whose use is subject to externally imposed restrictions. The City has resources set aside for debt service, public works projects, and community services programs as established by the City Council.

**Unrestricted Net Position** – These are resources that are accessible to the City to provide services to the residents of Huntington Beach if there were no additional revenues or resources available.

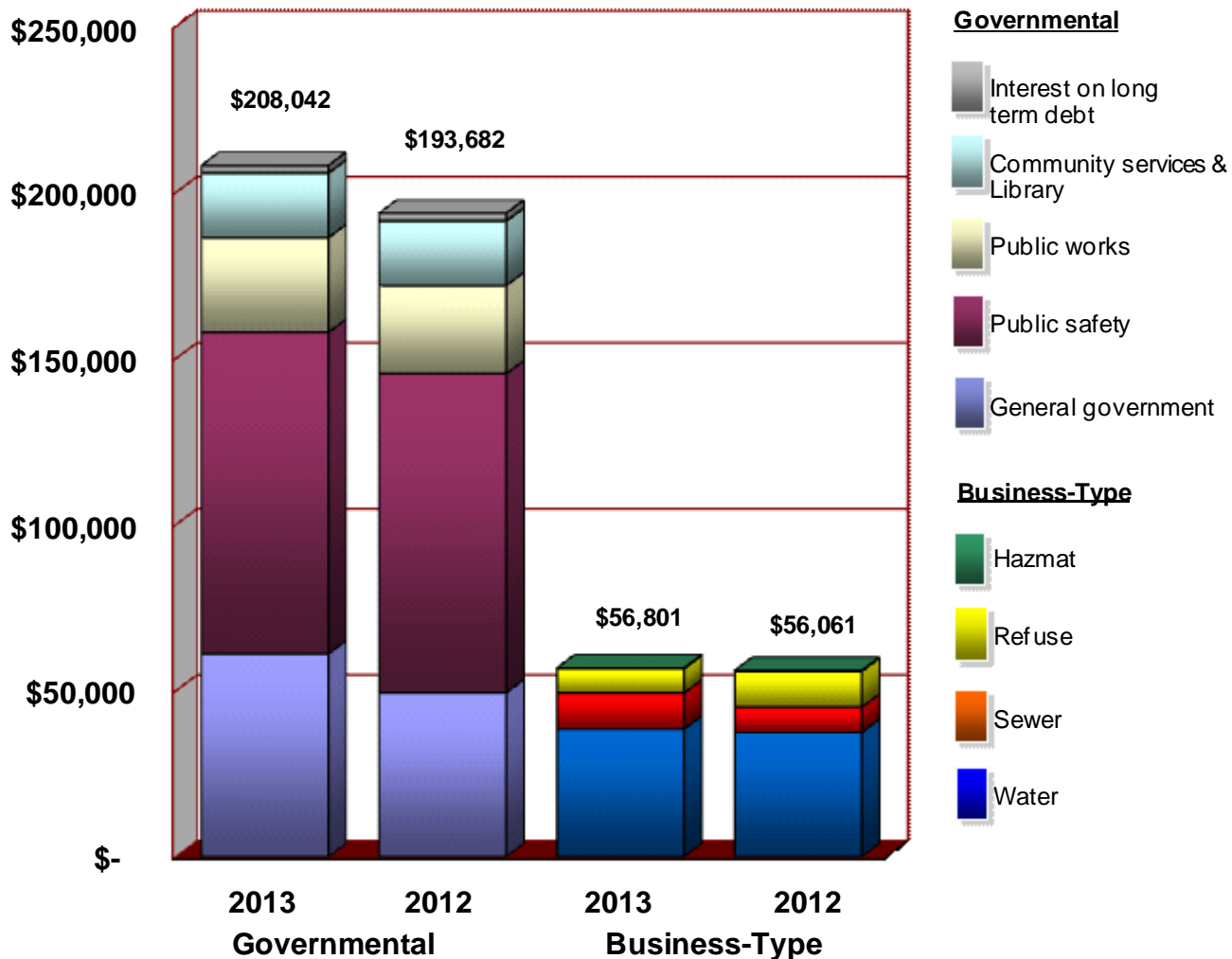




## STATEMENT OF ACTIVITIES

The graphs on this and the following page show revenues and expenses for Governmental and Business-type activities as they relate to the program category in which the funds were collected or expended. Governmental activities include the General Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Funds. Business-type activities include the Water Fund, Sewer Fund, Refuse Fund, and Hazmat Fund.

### City of Huntington Beach Expenses Governmental and Business-Type Activities For the Years Ending September 30, 2013 and 2012 (In Thousands)



Governmental expenses increased from \$193,682,000 in the fiscal year ending September 30, 2012, to \$208,042,000 in the fiscal year ending September 30, 2013, due to increased equipment replacement and street rehabilitation costs, as well as a one-time State-mandated payment made to the Orange County Auditor-Controller in accordance with AB 1484. Business-Type expenses increased from \$56,061,000 in the fiscal year ending September 30, 2012, to \$56,801,000 in the fiscal year ending September 30, 2013, primarily due to water utility improvements.





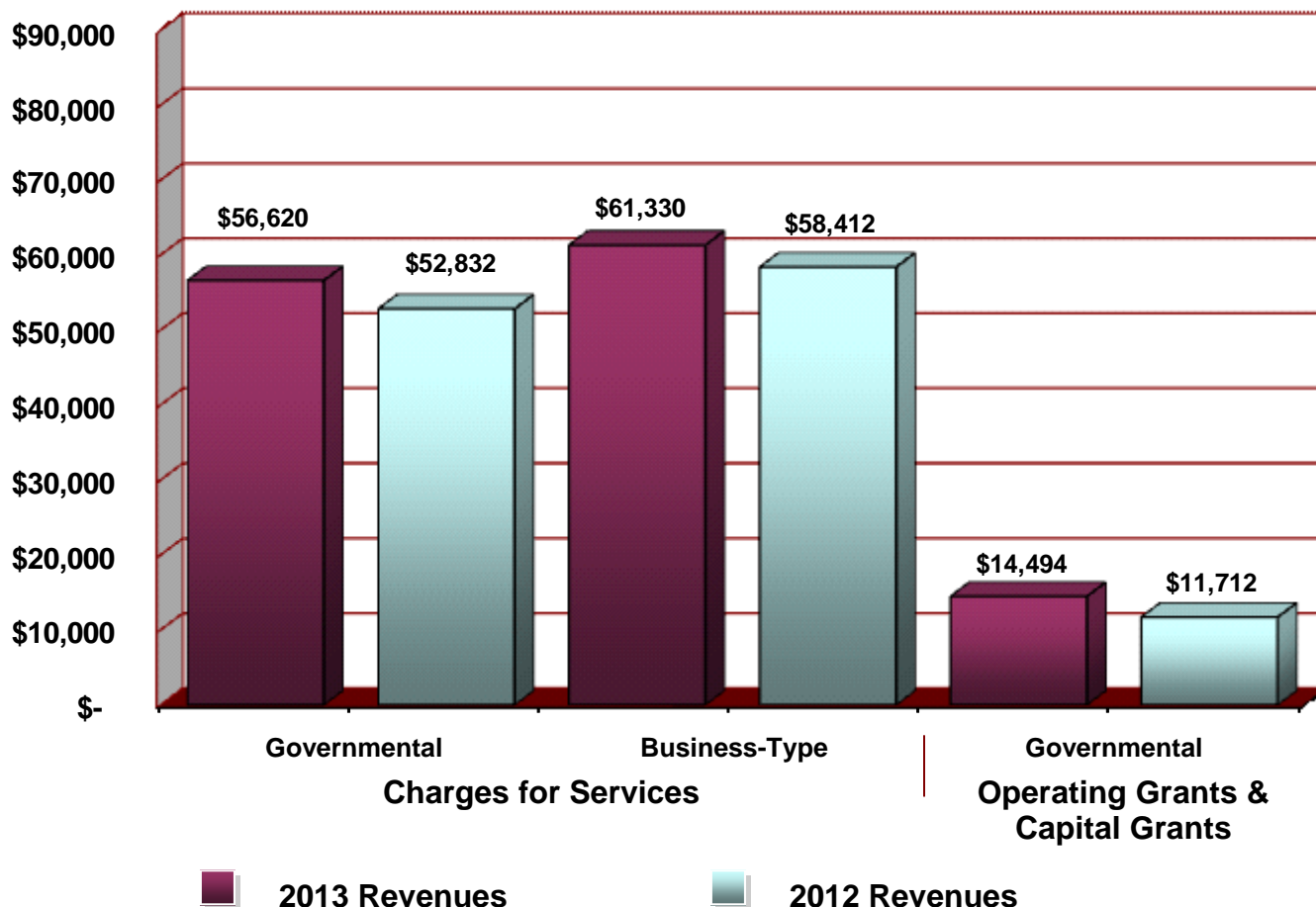
# City of Huntington Beach Program Revenues

## Governmental and Business-Type Activities

### For the Years Ending September 30, 2013 and 2012

(In Thousands)

**Definition of Program Revenues:** Revenues that derive directly from the program itself, such as user fees and charges, which reduce the cost of the function to be financed from the government's general revenues.



Charges for services increased from \$52,832,000 in the fiscal year ending September 30, 2012, to \$56,620,000 in the fiscal year ending September 30, 2013 for governmental activities primarily due to increases in public works, community services, and building and planning revenues. Operating and capital grants for governmental activities increased from \$11,712,000 in the fiscal year ending September 30, 2012 to \$14,494,000 in the fiscal year ending September 30, 2013 due to an increase in community services, economic development, police and fire grants, including the Community Development Block Grant, Metropolitan Medical Response System Grant, and allocations from the Orange County Transportation Authority.





## GOVERNMENTAL FUNDS

The City maintains 24 individual governmental funds. Governmental funds are used to account for tax-supported activities such as: public safety, public works, general government, and community-related services. The major governmental funds are the General Fund, Grants Special Revenue Fund, and the Low-Moderate Income Housing Asset Fund (LMIHAF) Capital Projects Fund.

The General Fund accounts for activity not required to be accounted for in another fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources.

Debt Service Funds are used to account for the receipts for and payment of general long-term debt.

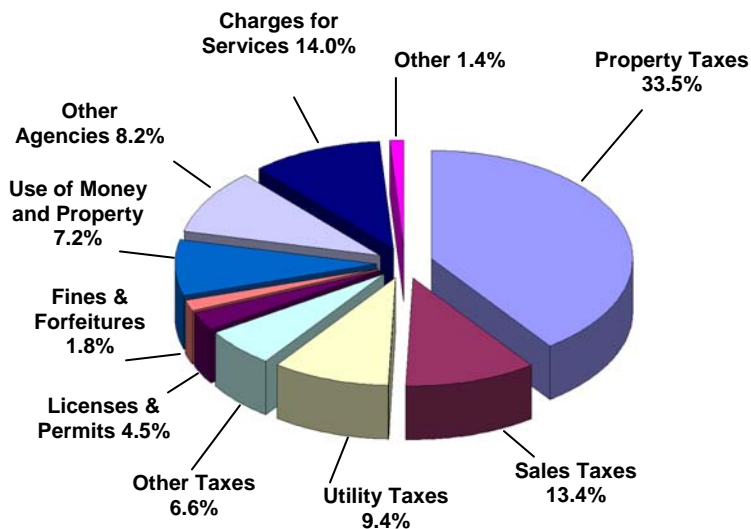
Capital Projects Funds are used to account for and report financial resources for capital outlays.

### Revenue/Resources (Where the Money Comes From)

The City received over \$221,908,000 from various funding sources for the fiscal year ending September 30, 2013.

### City of Huntington Beach Statement of Revenues Governmental Funds For the Year Ending September 30, 2013 & 2012 (In Thousands)

REVENUE BY SOURCE	2013	2012
Property Taxes	\$ 74,442	\$ 74,554
Sales Taxes	29,763	29,126
Utility Taxes	20,764	20,152
Other Taxes	14,568	12,930
Licenses and Permits	9,880	7,773
Fines and Forfeitures	4,058	4,252
Use of Money and Property	16,046	16,855
Other Agencies	18,237	18,537
Charges for Services	31,149	27,803
Other	3,001	2,248
<b>Total</b>	<b>\$ 221,908</b>	<b>\$ 214,230</b>



The largest source of operating revenues for the City is **property taxes**. Property taxes are levies collected from property within the City based on assessed value and tax rate.

**Sales taxes**, the second largest source of revenue, are imposed on retail transactions and are collected and administered by the State. Huntington Beach receives 1.0% of the total taxable sales generated within the City.

A **utility tax** of 5 percent is imposed on consumers of electricity, gas, water, and cable television services and 4.9 percent for telephone services within the City. Utility taxes are the third largest revenue generator for the City.

The "other taxes" category is comprised of the following:

- **Franchise fees** – negotiated fee revenue received from local utilities.
- **Transient occupancy tax** – imposed on lodging facilities such as hotels and motels. The City's tax rate is set at ten percent.

**Licenses and permits** represent revenues generated from a variety of activities, such as business licenses and building-related permits.

Revenue from **finances and forfeitures** are generated from various sources, such as court and traffic fines, parking violations, and library fines.

Revenue from the **use of money and property** includes interest on City investments, leases, parking fees, and concessions.

Revenue from **other agencies** is primarily reimbursements from Federal, State, and County sources.

**Charges for services** are revenues collected for services rendered to the public such as recreational classes.

**Other revenues** are revenues that do not fall into designated categories, such as refunds and donations.

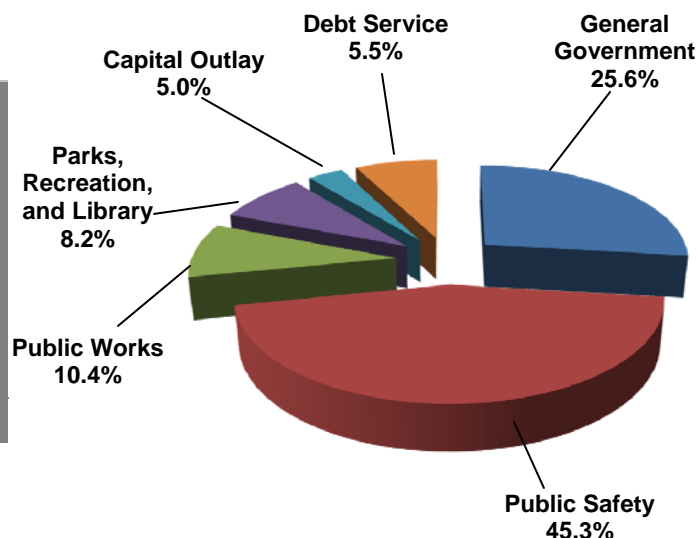


## Expenditures/Services (Where the Money Goes)

The City incurs expenditures to meet the diverse needs of the community. As a full service city, Huntington Beach provides fire and police services, as well as recreational and cultural opportunities. For the period October 1, 2012 to September 30, 2013, the total expenditures incurred by the City were \$212,953,000.

### City of Huntington Beach Statement of Expenditures Governmental Funds For Years Ending September 30, 2013 and 2012 (In Thousands)

EXPENDITURES	2013	2012
General Government	\$ 54,417	\$ 45,817
Public Safety	96,380	95,394
Public Works	22,169	22,666
Parks, Recreation, and Library	17,540	17,574
Capital Outlay	10,745	11,096
Debt Service	11,702	8,576
<b>Total</b>	<b>\$ 212,953</b>	<b>\$ 201,123</b>



**General government** expenditures are those incurred for the administrative offices, including the City Council, City Manager, City Treasurer, City Attorney, City Clerk, Finance, Human Resources, Economic Development, Planning and Building, and Information Services.

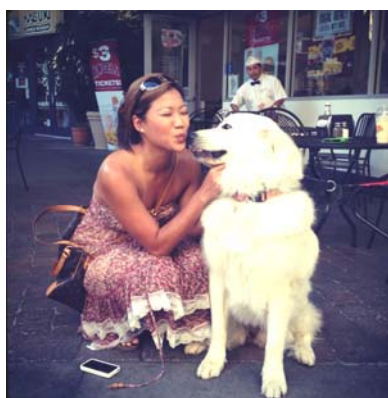
**Public Safety** expenditures reflect the costs associated with providing police, fire, and marine safety services to residents and visitors.

Expenditures for **public works** are those related to the design, construction, maintenance, and operation of public facilities and infrastructure within the City.

**Parks, recreation, and library** expenditures are those incurred by the City to enrich the quality of life in Huntington Beach through recreational and cultural activities, as well as to support the educational and informational needs of residents and visitors.

**Capital** expenditures are expenses related to the purchase of plant, property, equipment and expenses related to infrastructure improvements.

**Debt service** expenditures are used to retire the City's debt.

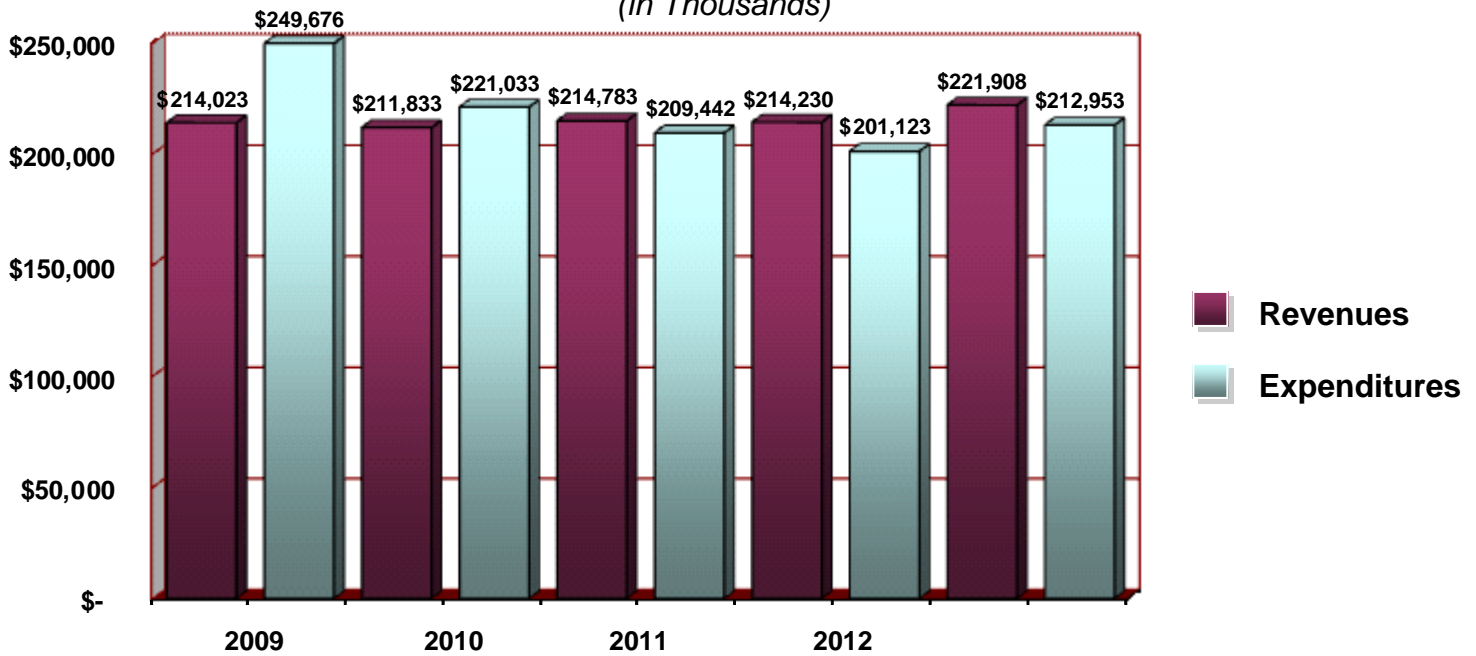




## Governmental Funds

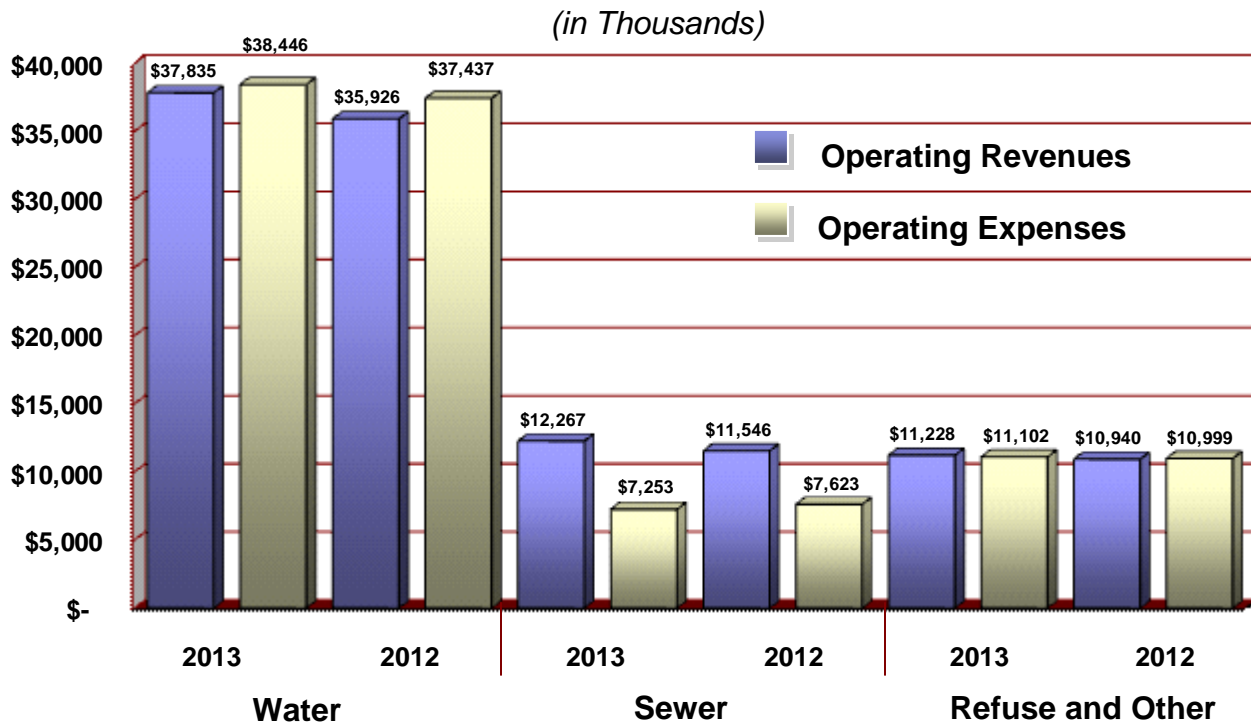
### Revenues and Expenditures - Five Year Trend

(in Thousands)



## BUSINESS-TYPE FUNDS

Business-type funds are used to report any activity for which a fee is charged to users for goods or services, similar to private business. Over time, these funds generate enough revenue to cover the costs of their operating expenses. The City maintained four business-type funds as of September 30, 2013.



The **Water Fund** accounts for water sales to customers.

The **Sewer Service Fund** accounts for user fees charged to residents and businesses for sewer services.

The **Refuse Fund** accounts for the activities of the City's refuse program.

The **Hazmat Service Fund** accounts for user fees charged for the City's hazardous materials program.



# Where Do the Taxes Go?

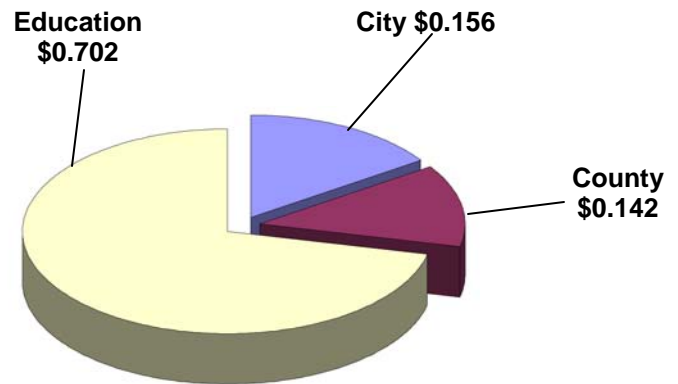
## PROPERTY TAXES

The largest source of revenue for the City of Huntington Beach is property taxes. Personal property in California is subject to a basic levy equal to one percent of assessed value. The California Constitution, after passage of Proposition 13 in 1978, fixed valuations of real property at 1975 levels, with a maximum adjustment of two percent per year based on inflation. When a change of ownership or new construction occurs, the property is reassessed to its current value.

The basic levy is allocated to county governments, school districts, cities, and special districts. Additional levies require two-thirds approval by voters and are allocated directly to the specific government.

The chart to the right shows how each dollar paid in property tax in the City of Huntington Beach is distributed to local school districts, County operations, and the City itself.

### Huntington Beach



## Message from the Finance Director

I would like to take this opportunity on behalf of the City of Huntington Beach to thank the wonderful citizens of this great City for allowing us to serve you. It is your hard work, participation, and determination that pulled us through the recent economic challenges and now lead us on a solid path to success and prosperity.

I wish to also thank the City Council, City Manager, and City Departments for their continued diligence in their role as fiscal stewards for the City of Huntington Beach. Without their leadership and support, the favorable financial results contained in this report would not have been possible.



**Lori Ann Farrell**  
Director of Finance





# Huntington Beach

## Leading Indicators



### Huntington Beach by the Numbers

Property Tax Rate	1.08642% (varies by tax rate area)
Unemployment Rate	4.30%
S&P Bond Rating	AA and A
Moody's Bond Rating	Aa3 and Baa2
Retail Sales Tax Revenue	\$29,763,000
Total City Debt	\$87,085,000
City Net Position	\$962,179,000



**City of Huntington Beach**  
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**Huntington Beach, CA 92648**  
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